

# 15 | Corruption and Development

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*‘Recent scandals in Brazil, France, Italy, Japan, Mexico, the US and other countries indicate that corruption is a worldwide phenomenon. But in Africa, the poorest continent, its effects have been especially harmful. In some African countries corruption has been so pervasive that even the most basic public services have been crippled and virtually no financing is left over for public investment. Corrupt officials and their external partners have siphoned away billions of dollars from the continent into secret foreign bank accounts, probably accounting for a significant share of the continent’s stock of flight capital, which the UN Economic Commission for Africa has reported to be an estimated \$148 billion.’*

- Journalist and Researcher Ernest Harsch

By definition, it is almost impossible to estimate the scale and the ultimate cost of corruption for society internationally or in any individual country. Among citizens worldwide, popular perception and opinion places both grand and petty corruption high on their list of national concerns – this is as true of the ‘developed world’ as it is of the ‘developing world’. In monetary terms, the World Bank conservatively estimates that bribes alone equal approximately 3% of global GDP, equivalent to around US\$1 trillion per year – more than enough to deliver the Millennium Development Goals agenda in full. This figure excludes embezzlement of government funds and, as a result, it is likely that a more accurate figure is some 5% of global GDP. It is estimated that the figure for developing countries could be as high as 25%.

The consequences for human development are as obvious as they are scandalous, especially in those countries where even the most basic needs of a majority of people are not being realised.



According to many commentators, corruption has an impact at a variety of levels through:

- reducing the level of both domestic and foreign investment – due to increased costs, uncertainty as to outcomes and lack of faith in the quality and impact of political and economic decision making
- reducing social cohesion and co-operation as individuals and groups seek advantage over others



- increasing inequality and the transfer of resources from the poor to the rich – this disproportionately benefits the rich and hurts the poor
- the inappropriate allocation of government finances for personal, regional or group benefit rather than that of all citizens
- increasing the risks and the effects of disasters as a result of faulty planning and construction and inadequately resourced services etc. (see, for example, the Global Corruption report of Transparency International for 2005 which examines corruption in construction).

The UN Anti-Corruption Toolkit adds another dimension:

**‘Corruption tends to concentrate wealth, not only increasing the gap between rich and poor but providing the wealthy with illicit means to protect their positions and interests. That, in turn, can contribute to social conditions that foster other forms of crime, social and political instability and even terrorism.’**

Recent years have witnessed a significant focus on the issue of corruption – its existence and estimated scale has led to calls from many observers and critics for an end to aid programmes, especially those focused on corrupt governments. Scandals in various programmes and structures including those in the UN itself, have added additional fuel to the debate. The corruption debate has also been used to pillory whole nations and regions despite the fact that ordinary citizens, especially in developing countries, are as innocent of corruption as taxpayers in aid-providing countries.

However, recent developments in relation to corruption have also included the emergence and strengthening of civil society organisations internationally dedicated to challenging corruption and to promoting transparency and accountability – the best known of these organisations include Transparency International, the Publish What You Pay Campaign and the Extractive Industries Transparency Initiative, but there are also hundreds of smaller local

<b>Least Corrupt 2005</b>	<b>Most Corrupt 2005</b>
Iceland	Bangladesh
Finland	Chad
New Zealand	Haiti
Denmark	Myanmar
Singapore	Turkmenistan
Sweden	Cote d’Ivoire
Switzerland	Equatorial Guinea
Norway	Nigeria
Australia	Angola
Austria	Democratic Republic of the Congo

- *Source: Transparency International Corruption Perceptions Index 2005*

### The World’s Ten Most Corrupt Leaders

<b>Name</b>	<b>President</b>
1. Mohamed Suharto	Indonesia (1967–1998) - 15–35 billion
2. Ferdinand Marcos	Philippines (1972–1986) - 5–10 billion
3. Mobutu Sese Seko	Zaire (1965–1997) - 5 billion
4. Sani Abacha	Nigeria (1993–1998) - 2–5 billion
5. Slobodan Milosevic	Serbia/Yugoslavia (1989–2000) - 1 billion
6. Jean-Claude Duvalier	Haiti (1971–1986) - 300–800 million
7. Alberto Fujimori	Peru (1990–2000) - 600 million
8. Pavlo Lazarenko	Ukraine (1996–1997) - 114–200 million
9. Arnoldo Alemán	Nicaragua (1997–2002) - 100 million
10. Joseph Estrada	Philippines (1998–2001) - 78–80 million

*Defined as former political leaders who have been accused of embezzling the most funds from their countries over the past two decades. All sums are estimates of alleged embezzlement and appear in U.S. dollars.*

- *Source: Transparency International Global Corruption Report 2004*

NGOs working on the same agenda. There has also been significant growth in national and international anticorruption activities, and much more open discussion in international forums about corruption. Important initiatives include the OECD Anti-Bribery Convention, the UN Convention Against Corruption and the African Union Convention on Corruption and Corruption Related Offences.



<b>Country/Rank</b> (Number of countries surveyed)	<b>2001</b> <b>(91)</b>	<b>2003</b> <b>(133)</b>	<b>2005</b> <b>(159)</b>
Iceland	4	2	1
Finland	1	1	2
New Zealand	3	3	2
Denmark	2	3	4
Singapore	4	5	5
Australia	11	8	9
United Kingdom	13	11	11
United States	16	18	17
Ireland	18	18	19
Chile	18	20	21
Italy	29	35	40
South Africa	38	48	46
Greece	42	50	47
Brazil	46	54	62
Egypt	54	70	70
India	71	83	88
Ukraine	83	106	107
Zambia	75	92	107
Russia	79	86	126
Nigeria	90	132	155
Bangladesh	91	133	158

- **Source:** *Transparency International Corruption Perceptions Index 2005*

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## Defining corruption

Defined broadly, corruption is the misuse of positions of power and/or privilege for personal gain or benefit – it can include fraud, bribery, misuse of resources, demanding favours (including sexual favours) in return for services or for the avoidance of fines etc. Most commentators note the difference between petty and grand corruption.

Petty corruption usually involves the exchange of small amounts of money, the granting of minor favours in return for preferential treatment or employment or for the avoidance of fines etc. Grand corruption is corruption that characterises the highest levels of government, private business or civil society and can lead to a broad erosion of confidence in government, accountability, the rule and impartiality of law and economic stability.

Commentators note also that the most critical difference between grand corruption and petty corruption is that the former involves the distortion or corruption of the central functions of Government and society, while the latter develops and exists within the context of established governance and social frameworks.

## Corruption Perceptions Index

Transparency International began publishing an annual Index of Perception of Corruption (CPI) in 1995 ranking the world's countries according to 'the degree to which corruption is perceived to exist among public officials and politicians' by business people and country analysts. In the index, corruption is defined as 'the abuse of public office for private gain'.

In the 2005 report, some 16 different polls and surveys were used from 10 different independent institutions including, for example, Columbia University, the Economist Intelligence Unit, Freedom House, the UN Economic Commission for Africa etc. In recent years, Transparency International has sought to develop other corruption measurement tools to complement the CPI. The Bribe Payers Index assesses the supply side of corruption and ranks corruption by source country and industry sector. The Global Corruption Barometer is a public opinion survey that assesses the general public's perception and experience of corruption in more than 60 countries around the world.



## Measuring Public Perceptions of Corruption

Each year, the Global Corruption Barometer, published by Transparency International, measures the results of public opinion and experience (among 55,000 people in 69 low, middle, and high-income countries) of corruption. The Barometer seeks to capture how and in what ways corruption affects ordinary people's lives, thus providing an indication of the form and the extent of corruption from the view of citizens around the world.

The Barometer asks people about their opinions regarding those sectors in society considered to be the most corrupt and which spheres of life are most affected, it also explores bribery in depth, and presents information on: how frequently families pay bribes; how these payments take place; whether they are paid to gain access to public services; and how much they pay.

The findings of the 2005 barometer reflect the patterns evident in previous years – those surveyed ranked political parties, parliaments, the police and the judiciary as the most corrupt institutions internationally. Political parties were given the worst overall score, and were seen as the most corrupt sector in 45 out of 69 countries; however, there were some interesting regional differences. While citizens in Asia, Western Europe, and Latin America focus on political parties and parliaments as the most corrupt, the public in Africa is most concerned about the integrity of its police forces, and citizens in Central and

Eastern Europe regard the police and their party system as equally corrupt.

As regards the business sector and the media, the most critical views were expressed in Western Europe, especially in Scandinavian countries, and while the health and education sectors were not scored harshly, there were significant levels of concern about unofficial 'user charges' that may be hindering the access of many people to basic social services. In terms of the impact of corruption on different spheres of life, respondents clearly stated that the political spheres in their countries are affected by corruption. However, a high percentage of people also thought that the business sector was similarly affected, especially in Africa and Western Europe. Conversely, fewer people in Latin America had this opinion.

Respondents from low-income countries tend to have more negative views of the effect of corruption on their personal lives compared to middle income and high income country respondents. 57% of those surveyed thought that corruption had increased either a little or a lot with respondents in Latin America and Africa the most negative.

Looking to the future, respondents were less pessimistic – the average person thought that corruption would stay the same rather than worsen while views from Latin America and, in particular, Africa tended to be more positive for the future.

As regards bribery, citizens from predominantly rich countries report low levels of bribery and those from poorer nations

### Most affected by corruption 2005

(1 = not corrupt at all, 5 + extremely corrupt)

Sector/institution	Level of corruption
Political Parties, Parliament/Legislature, Police, Legal System/Judiciary	4.0 – 3.5
Business/Private Sector, Tax Revenue, Customs, Media and Medical Services	3.4 – 3.2
Utilities, Education System, military, Registry and Permit Services, NGOs and Religious Bodies	3.0 – 2.6

- Source: Global Corruption Barometer 2005, Transparency International



report higher levels but there are still significant differences across regions and income groups. The cost of bribery can be significant for individual households. When compared to GDP per capita, it is clear that families in some countries spend very significant percentages of their incomes on bribes. According to the 2005 barometer, it is more common in Latin America and South Asia for bribes to be asked for directly while in Eastern Europe bribes are regularly required for access to public services.

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### Where corruption affects political life to a large extent

<b>More than 70%</b>	Bosnia and Herzegovina, Bolivia, Greece, Israel, Peru, Philippines, Taiwan
<b>51% - 70%</b>	Argentina, Bulgaria, Canada, Cameroon, Chile, Colombia, Croatia, Czech Republic, Dominican Republic, Ecuador, France, Ghana, Indonesia, India, Italy, South Korea, Lithuania, Macedonia, Mexico, Nigeria, Panama, Paraguay, Poland, Portugal, South Africa, Russia, Serbia, Thailand and Turkey
<b>31% - 50%</b>	Costa Rica, Ethiopia, Georgia, Germany, Guatemala, Hong Kong, Ireland, Japan, Kosovo, Kenya, Moldova, Nicaragua, Pakistan, Romania, Senegal, Singapore, Togo, UK, Ukraine, Uruguay and the USA
<b>11% - 30%</b>	Austria, Cambodia, Denmark, Finland, Iceland, Luxembourg, Malaysia, Netherlands, Norway, Spain, Switzerland, Venezuela

- **Source:** Global Corruption Barometer 2005, Transparency International

<b>Bribes paid by household members in the previous 12 months</b>	<b>Nominal amount in \$US</b>	<b>Amount in purchasing power parity \$US</b>
Cameroon	205	560
Lithuania	195	432
Ghana	181	1095
Ukraine	160	860
Serbia	171	No data
Guatemala	147	303
Nigeria	114	280
Mexico	111	161
India	102	523
Moldova	86	280



## Companies and corruption

According to the 2002 Bribe Payers Index, there were very high levels of bribery in developing countries by corporations from Russia, China, Taiwan and South Korea in particular, as well as from many industrial nations – Italy, Hong Kong, the United States, Japan, France and Spain.

The BPI highlights the fact that companies exporting from Russia and China to emerging market economies are using bribes *“on an exceptional and intolerable scale. The extent to which companies from Taiwan and South Korea use bribes abroad is only marginally less. The authorities of all of these countries need to do more to prevent bribery by their firms abroad.”* The index also shows that US multinational corporations regularly pay bribes to foreign government officials. The US score of 5.3 (out of a best possible ‘clean’ mark of 10) is matched by Japanese companies and is worse than the scores for corporations from France, Spain, Germany, Singapore and the United Kingdom. Those countries whose companies are least likely to offer bribes are Australia, Sweden, Switzerland, Austria, Canada, the Netherlands and Belgium.

The BPI was conducted in 15 emerging market economies - Argentina, Brazil, Colombia, Hungary, India, Indonesia, Mexico, Morocco, Nigeria, the Philippines, Poland, Russia, South Africa, South Korea and Thailand – all among the largest countries involved in trade and investment with multinational firms. A total of 835 interviews were carried out between December 2001 and March 2002, principally with senior executives of domestic and foreign companies, but also with executives of chartered accountancies, national chambers of commerce, national and foreign commercial banks and commercial law firms.

The BPI highlights the fact that the highest levels of corruption are to be found in public works and construction sectors as well as in the arms and ‘defence’ sectors. Sectors considered least likely to be affected by corruption such as agriculture scored only 5.9

(against a maximum ‘clean’ score of 10) whereas public works and construction was scored 1.3, followed by arms and ‘defence’ with 1.9 and the oil and gas sector with a score of 2.7.

## The OECD Anti-Bribery Convention

This convention - officially known as the *OECD Convention Against Bribery of Foreign Public Officials in International Business Transactions* - is aimed at tackling corruption by sanctioning bribery carried out by companies based in OECD member states. The convention came into effect in February 1999 and countries that have signed the Convention are required to enact legislation that criminalises the act of bribing a foreign public official. As of April, 2006, 36 countries have ratified the convention.

Each country accepting the Convention must adopt the necessary national legislation to criminalise the bribery of foreign public officials and to address related obligations under the Convention. These obligations include insisting on corporate responsibility for the offence, sanctioning the laundering of the bribe and the proceeds of foreign bribery, penalising related accounting omissions and falsifications, providing mutual legal assistance and extradition. The OECD has no authority to implement the convention, but instead monitors implementation by participating countries.

Every participating country has an interest in ensuring that all other partners in the Convention are living up to their obligations and this is done through monitoring and surveillance procedures that are carried out by the OECD Working Group on Bribery through a process comprised of two phases. Phase 1 evaluates the adequacy of a countries’ legislation to implement the Convention and Phase 2 assesses whether a country is applying this legislation effectively. The Working Group evaluates each country’s performance and makes recommendations that are forwarded to the Government of each participating country.



Three recent 2006 reviews of the Convention 'at work' in the cases of Japan, the Netherlands and Denmark noted the following:

- **Japan** - had not demonstrated sufficient efforts to enforce its foreign bribery offence and included recommendations that Japan should proactively investigate and prosecute foreign bribery cases, urgently undertake an assessment of the impediments to the effective investigation and prosecution of the offence and further strengthen the legislative framework for fighting foreign bribery including by moving the offence to the Penal Code
- **The Netherlands** - needs to be more proactive in the investigation and prosecution of bribery of foreign public officials in international business transactions. Given the size of the

Dutch economy and the level of international trade of Dutch companies, particularly in risky sectors and markets, more investigations and prosecutions of foreign bribery would be expected but there have been no trials or convictions to date

- **Denmark** - should increase the penalties for foreign bribery, the maximum sanction for foreign bribery is lower than for comparable offences in the Danish Penal Code and does not meet the necessary threshold for allowing Danish law enforcement authorities to use special investigative techniques. And although Denmark has engaged in significant legislative efforts for implementing the OECD Anti-Bribery Convention, other problems, such as the absence of an efficient framework for detection and reporting of foreign bribery, should be addressed.

More information – [www.oecd.org](http://www.oecd.org)





## Buying Influence? Political Parties and Funding

The International Institute for Democracy and Electoral Assistance (IDEA), an intergovernmental organisation with member states from all continents, was created in 1995 and has a mandate to support sustainable democracy worldwide. Its finances come from contributions from member states and through funding from, for example, European Commission, Inter-American Development Bank (IADB), United Nations Development Programme (UNDP), Ireland, University for Peace (UPEACE), United Nations Foundation etc.

As part of its work, IDEA focuses on three areas of 'democratic challenge' - citizenship and representation (including gender, electoral participation etc.), vertical accountability (electoral and political party processes and systems) and horizontal accountability (constitution-building processes and institutional reforms).

In early 2004, IDEA published a handbook on the funding of political parties and outlines a number of key lessons learned from 'established democracies':

- Political parties and competition for political power are essential for sustainable democracy and good governance
- Competing parties need adequate resources for necessary activities in order to strengthen democracy and accountability as well as transparency
- Money is an essential part of this process and thus in new democracies it should not be treated solely as a problem
- The challenge is to find the best ways of matching the need for a sustainable financial base for parties with the wider public interest of curbing or curtailing corruption
- The funding of political activity by parties and candidates should be made an issue of public debate. Disclosure and reporting rules and their implementation can provide for adequate transparency of political funds
- Too much reliance on funding from either the private or the public sector of society is unwise.

Despite such advantages, the risks involved include:

- General scarcity of resources - if a society is poor the funding of politics may be too limited to be effective, parties may turn to foreign or 'undesirable sources' which could lead to dependence or to a loss of legitimacy

- Inequality of resources available for competing parties: governing parties have easier access to funds and are thus in a better position than opposition parties. Also, there are always segments of society which are better off than others and this will translate into unequal political terms
- Interested money - special interests can motivate a political contribution, those who benefit from the *status quo* may give financial support to parties that do not favour change. Parties of the "haves" may raise more funds than parties of the "have-nots". Also, donations by corporations and trade unions can reveal the difference between grass-roots funding and "plutocratic financing"
- Individual donations by persons entitled to vote from their own funds raises another question decided by the US Supreme Court in 1976. It decided that the inalienable political rights of any citizen automatically includes the liberty to spend unlimited amounts of his or her own money on behalf of any personal opinion, preferred candidate or political party.

Reviewing the situation of funding internationally, IDEA notes a number of issues:

- Banning or limiting funding is difficult to enforce and, in new democracies, subjecting such funding to disclosure, law and accountability would constitute significant progress
- The core need is to build political consensus nationally rather than simply implementing international regulations or proposals
- Enforcement remains problematic as it implies respect for the law and an effective and impartial judiciary
- A number of positive strategies have helped in, for example, Latin America, where limiting the length of political campaigns has reduced cost and limiting access to TV advertising has helped reduce undue influence etc
- Disclosure rules can assist but only in certain circumstances, e.g. where a vibrant and independent media and civil society exist
- Public funding for political parties is more widespread than imagined (internationally, 65 countries have provision for direct funding and 79 for indirect funding)
- Parties currently in power have a distinct advantage over those in opposition.





## Regional trends in funding for political parties – some examples

Region	Current Situation
<b>Africa</b>	<p>Multiparty politics recent but growing, political financing largely unregulated, entrenched powerful parties using state resources for own ends, business interests dominate and party structures and membership is weak. The African Union is working to promote transparency and accountability and in countries such as Ghana, South Africa and Uganda, reform is underway. Mali bans foreign political donations but not local, Benin limits campaign expenditure, has limits on public, but not private, funding. Kenya removed the ban on funding in 1992 and approved state funding in 1999. The most prominent methods of funding are donations (e.g. Ghana, Zambia, Nigeria, Kenya, South Africa - usually large – national and international or smaller, from citizens overseas usually for opposition parties), corrupt 'kickbacks' (e.g. Ghana, Cote d'Ivoire), state subventions (Ghana, Zimbabwe) and returns on investments by political parties (e.g. Zimbabwe) or through setting up 'front organisations e.g. NGOs, foundations – Ghana, Kenya). <i>'African governments exploit the opportunities of office to 'bankroll' their parties without many of the political constraints and restraints that operate in mature democracies'.</i></p>
<b>Continental Western Europe Canada, the US and Australia</b>	<p>Significant differences between north and south, strong degrees of regulation in countries such as Germany (and Canada) where respect for law is high, as is real party membership and public support for state funding. Considerable 'tightening up' with European Union legislation and provision for EU future funding and Council of Europe agreements on transparency as well as prohibitions on party funding including enforcement and sanctions and strong civil society groups and interest. Italy, Austria, Israel, Sweden and Japan are viewed as high spending countries and the UK, Canada, Australia and the Netherlands as being moderate. Sources of funding include small grassroots or citizens (often tax exempt to a certain level) e.g. UK, Canada, Australia, corporate or interest group funding e.g. Labour Party in the UK, Australia (<i>'still effectively concealed'</i>) and Canada (75 – 90% of funding). In the US, there are limits to corporate funding (excludes certain groups including trade unions, corporations and foreigners) but rich donors and corporations routinely bypass these and individual Political Action Committees have become very notable in funding political parties – these represent particular 'interest groups'. Public funding is increasing in importance and is provided in Australia, Canada, the US, but is much more limited in the UK.</p>
<b>Latin America</b>	<p>Multiparty democracy now established and mostly stable with a strong private sector and civil society. Significant interest in recent years in party funding with new initiatives in many countries and regionally under the rubric of the Council of Presidents and Prime Ministers of the Americas. Major problems with information availability and reliability, with many political scandals and with enforcement. Funding that combines private and public resources is the norm but with the former generally dominant. Public funding in some countries for many years e.g. Uruguay (1928) or very recently e.g. Dominican Republic (1997). Significant degrees of corruption despite limits and restrictions on contributions to parties in 13 of the 18 countries – most ban donations from foreign governments, institutions and individuals. Oversight, enforcement and accountability are major problems. But evidence of some progress with 8 of the 18 countries - Argentina, Bolivia, Chile, Colombia, Ecuador, Mexico, Nicaragua and Peru – requiring a degree of public disclosure. Key issues now include reform, legislation, enforcement, oversight, public disclosure, public accountability and effective sanctions.</p>



## Corruption in Africa – costing €148 billion per year

Corruption is estimated to cost Africa approximately \$148 billion each year, equivalent to the amount of VAT fraud in the EU each year.

While it is clear that corruption is a widespread international phenomenon affecting all countries to a greater or lesser degree, most international and African commentators argue that it is now endemic and widespread in the majority of African countries. A 2002 World Bank study of Ethiopia concluded that corruption was the most important problem that households face after poverty. A similar situation exists in many other countries with Africans themselves ranking corruption among the top three problems behind poverty and unemployment. For example, in Cameroon, Morocco, Nigeria and Tanzania more than 25% of the households recently surveyed (by the UN Economic Commission for Africa 2005) said that corruption was a serious problem.

In the 2005 Corruption Perception's Index, the scores for all African countries except Botswana were 5 or below on the 10-point scale. Botswana, which ranked 32 with a score of 5.9, was the highest score in Africa with Nigeria, Cote d'Ivoire and Angola all at the bottom of the leagues. In fact, of the bottom 14 countries – those considered to be among the world's most corrupt – nine were in Africa.

In many African countries, corruption has become a systematic plague that characterises much of the public sector, a considerable amount of the private sector and spreads also into civil society organisations. The areas most identified where corruption exists include recruitment and promotion, public expenditure, the provision and management of public services, taxation, the awarding of contracts, petty corruption at lower levels of the public service, misuse of resources etc. The consequences for the majority of Africans are obvious and significant.

In its 2005 African Governance Report, the UN Economic Commission for Africa paints a snapshot image of the nature and character of the problem as follows:

'One manifestation of corruption in the public service is bribery. The general perception among Kenyans is that the civil service is not only corrupt but also inefficient. Many civil servants and ministers have been implicated in corrupt deals, such as favouritism in awarding scholarships, positions and contracts, which erodes public confidence in state institutions. In Malawi the public rating of the integrity of the civil service and the executive is very low, with a general perception that corruption runs deep in the public sector. In Nigeria corruption is considered a national malaise that causes ordinary citizens to have little trust in the state.

In Ghana corruption is widely perceived to be rife in the public bureaucracy. A 1999 corruption and governance survey conducted there by the Centre for Democratic Development found that 62–87% of households had paid bribes to government agencies, with Motor, Transport and Traffic Unit, the Customs, Excise and Preventive Service, the regular police and immigration service topping the list of bribe-takers. In the survey 44% of the private businesses said that they have made unofficial payments to public officials, some frequently or always.'

However, contrary to the view often put forward by some commentators, the situation is not similar across the Continent – there appears to be a regional pattern to the levels of corruption in Africa (as noted in the 2005 Governance Report cited above):

- The integrity of the government and the levels of corruption were rated more poorly in West and East Africa than in Southern Africa
- In Benin, Burkina Faso, Cameroon, Niger, Uganda, Ethiopia, Kenya, Mali, Nigeria and Chad there was a perception of higher levels of corruption in the tax collection system
- In Namibia, Botswana, South Africa and Mauritius the perception is of much lower levels of corruption
- In Namibia, Botswana and South Africa, more than 95% of the experts surveyed said that the tax collection system is largely free from corruption.

Commentators have identified a number of key reasons why corruption is so endemic in Africa – these include:

- The greed and rapaciousness of many senior politicians, public servants, businesspeople and community leaders who see the resources of their countries – including its citizens – as an



opportunity for their personal benefit. Many of them see this as normal and natural, something that accompanies high office and leadership. This situation is often true of traditional leaders as well as 'modernising elites' and it is true for all sectors – politics, business and civil society

- The levels of institutional weakness and the lack of effective democracy at a variety of key levels in many African countries, plus the general weakness of civil society structures and influence – all make it possible for political leaders and public servants to embezzle national resources and to abuse their power without being effectively checked and, ultimately, held accountable
- In many African countries, adequate legislative structures, competences and skills to oversee Ministries and politicians as well as the public service often do not exist or are weak and ineffective, revenue and finance departments are poorly staffed and regularly lack resources and/or autonomy. Many of the public regulatory institutions and law enforcement agencies are also viewed as being very corrupt - for example, the police force is routinely seen as corrupt along with tax officials and the judiciary
- The low salaries and poor living standards of most public servants and the need for very many of them to 'supplement' their salaries in order to provide for their families routinely fosters corruption. Teachers, police, local government officials etc. are regularly unpaid for months at a time and, are thus, forced to use their positions to make ends meet
- Another key reason lies in the behaviour and views of external forces - foreign companies and private interests often prey on weak institutional mechanisms and levels of poverty among key groups to offer bribes in order to win contracts, influence political and legislative decisions as well as to maintain influence. There have been many and spectacular cases of bribery and corruption involving resource companies, pharmaceutical companies, 'defence' contractors, public works companies, telecommunications companies etc. This situation has been significantly strengthened by the recent drive

to 'privatise' state resources and to 'open up' many African countries to international 'competition'.

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**"Western governments must also show that they are serious about tackling their own companies that bribe abroad. The OECD Anti-Bribery Convention, which outlaws bribes to foreign public officials, came into force in 1999, but we are still awaiting prosecutions in the courts of the 35 signatory countries. The governments of these countries have an obligation to developing countries to investigate and prosecute the companies within their jurisdictions that are bribing. Their bribes and incentives to corrupt public officials and politicians are undermining the prospects of sustainable development in poorer countries"**

*- Peter Eigen, Chairman of Transparency International*

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However, there are signs that the situation is being tackled in different states and at a variety of different levels:

- Zambia, Ghana and Uganda have begun to strengthen anti-corruption structures and instruments
- In Tanzania, for example, the government strengthened the Prevention of Corruption Bureau, by hiring well-trained investigators and providing them with better facilities. In 2002, 1,461 complaints were filed with the Bureau— 1,311 of them involved public officials, 88 involved private individuals and 62 involved political parties. At least 20 highly placed public officials retired, and one minister was tried on allegations of corruption
- In Mali and Benin, civil society organisations have become more active and effective. In Mali four civil society groups have been established primarily for this purpose: the National Observatory for the Fight Against Corruption, the Centre of Studies, Reflection, Sensitisation on Corruption and Poverty in Mali, the Alliance for Transparency in Mali (the Malian branch of Transparency International) and the Malian Network of Journalists for the Fight Against Corruption and Poverty. In Benin the Public Moralisation Unit of the Office of the President has encouraged civil society to be involved against corruption, leading to the setting up of a Front des Organisations Nationales Anti-Corruption (FONAC).



## Fuelling Poverty: oil, war and corruption

In industrialised democracies – even those rich in natural resources – government expenditure is principally funded through taxation (and public sector borrowing). But in countries with oil that start out poor, a huge, often the largest, proportion of government income comes from the sale of oil and of the rights to exploit oil, and from taxing companies which carry out oil extraction. In the case of Angola, an estimated 87 per cent of the country's income comes from oil, much of it paid directly to the government by foreign companies.

When a government earns a significant and direct 'rent' from a natural resource, it hinders the development of representative politics by removing the need to collect taxes effectively. Without paying taxes, people's stake in society is reduced and their desire to see their money spent on providing the services they need is diminished. In this way, the governments of oil-dependent developing countries become less accountable to their people, even though they may have been chosen through elections. In short, oil impedes democracy.

Huge amounts of money washing about with scant levels of accountability create the text-book conditions for corruption. If people do not know where their government's money is going, or even where it is coming from, then it is probable that at least some of it will find its way into the private pockets of the powerful.

A report by Michael Ross of the University of California demonstrated a firm link between oil and authoritarian rule. Ross was intrigued by the absence of democracy in the Middle East and decided to test whether it was linked to the heavy reliance on oil of many of the states concerned.

Ross took a sample of 105 countries and analysed data from 1971 to 1997 asking three questions of the claim that oil impedes democracy. First, is it true? Second, does it only affect Middle Eastern regimes? Third, why does it happen?

His results were startling. For every one-point rise in oil wealth, Ross observed a 0.72 drop on a 0-10 democracy scale. In other words, his research

suggests oil works directly against the development of representative politics. He also found that this effect is not restricted to the Middle East, but is observed in other areas where oil-rich states are clustered, such as sub-Saharan Africa. Ross concluded that the likely explanation for the phenomenon was that oil encouraged high 'rent-seeking' by public officials and politicians, money which is used to 'allay popular demands for democracy'.

The IMF estimates that in Angola more than US\$1 billion of government income from oil – or 20 per cent of the total – disappears every year. Some believe this sum could be as high as US\$1.4 billion. But it is not only the misuse and disappearance of public money that is at stake. The payment of bribes or commissions by foreign oil companies – sometimes using public money from western countries – to secure lucrative oil contracts is also common.

Loik Le Floch Prigent, the former president of French state oil company Elf Aquitaine – now privatised and merged with Total Fina – was convicted in 2002 of presiding over the commission payments on oil deals with African countries, including Angola. In court, Le Floch Prigent admitted that intermediaries were used to keep the system opaque. *'We know that there were people between us and the leaders of these countries,'* he said. It is perhaps no coincidence that the country's president, Eduardo dos Santos, is also Angola's richest citizen.

In April 2003, a federal court in New York heard how Mobil Oil, now part of Exxon Mobil Corp, was part of a US government investigation into allegations of corruption involving American executives and Kazakhstan government officials over oil deals. An indictment against a former senior Mobil executive accused him of evading taxes on a US\$2 million kickback he allegedly received for negotiating oil deals with Kazakhstan. A New York businessman was also indicted on conspiracy charges accusing him of making more than US\$78 million in unlawful payments to two senior Kazakh officials to win oil deals. Prosecutors said that one official used bribe money to buy jewellery worth more than US\$180,000 and pay for a Swiss spa visit while the other official used at least US\$45,000 to send his daughter to an



exclusive Swiss finishing school. Both men and Exxon Mobil denied any wrongdoing.

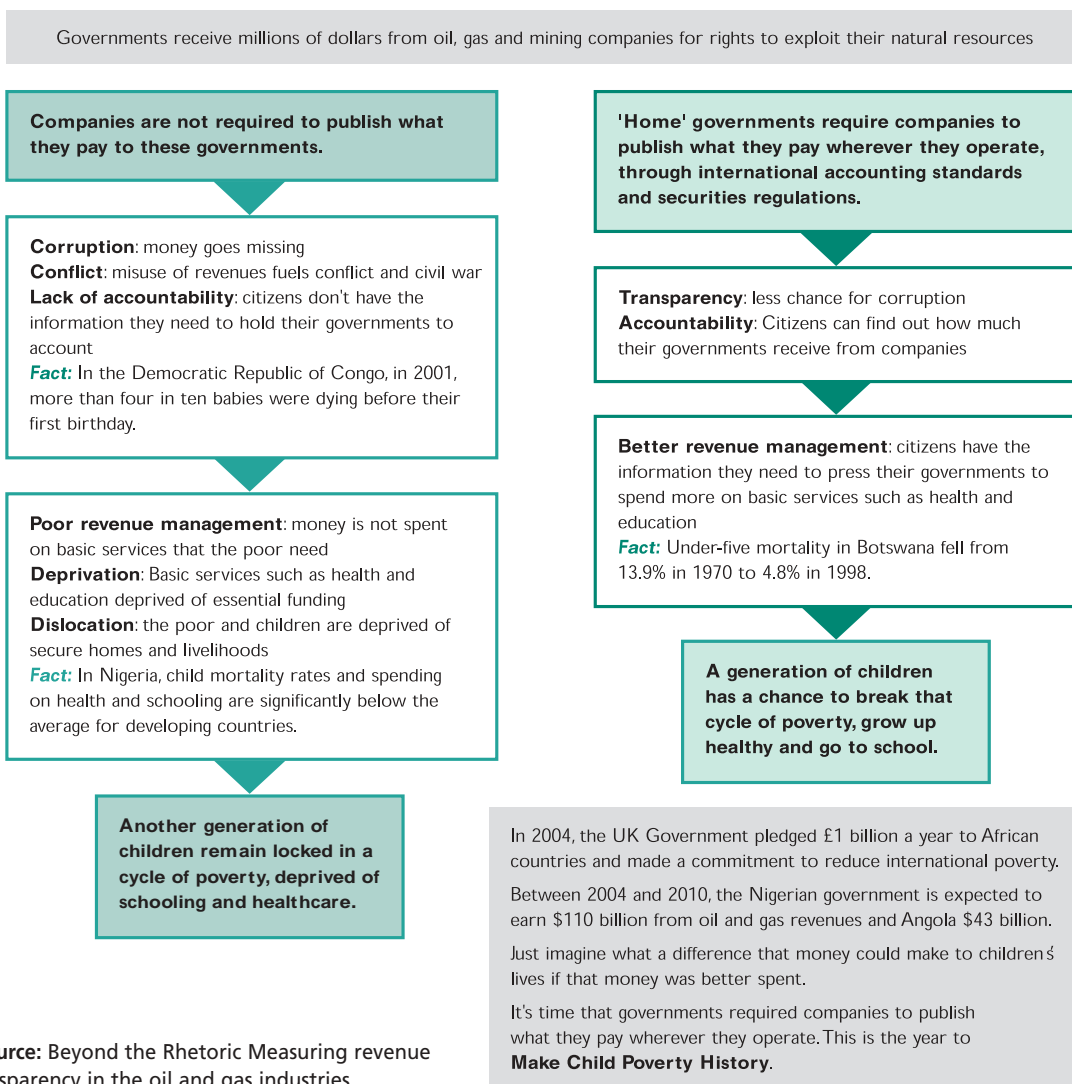
Generally, people in oil-rich developing countries do not have the information on which to seriously scrutinise their governments. So much of their governments' revenue comes from direct payments made by international oil companies. These are neither declared when the companies make the payments, nor when the government spends the revenue. An abundance of oil therefore creates opportunities for so-called 'rent-seeking behaviour' by politicians who find themselves privy to large amounts of unscrutinised income. And once they have received their payments – both legitimate and illegitimate – they are largely free to spend it on ensuring that they remain in power.

In the 1990s it is estimated that rebels, warlords, corrupt governments and other predatory groups earned an estimated US\$12 billion worldwide in revenues from marketing their countries' natural resources.

- Extract from a report by Christian Aid (2003) **Fuelling Poverty: oil, war and corruption**

Christian Aid is a member of **Publish What You Pay** – an international NGO coalition that campaigns for the mandatory disclosure of taxes, fees, royalties and other payments by oil, mining and gas companies to governments and other public agencies. For further information see [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org)

## Why is transparency in the oil, gas and mining industry important to children?





## Tackling Corruption – some case studies

### Publish What You Pay Campaign

The Publish What You Pay Campaign was created to assist citizens of resource-rich developing countries hold their governments accountable for the management of revenues from the oil, gas and mining industries. Natural resource revenues are an important source of income for governments of over 50 developing countries, including Angola, Indonesia, Kazakhstan, Nigeria and Venezuela. When properly managed these revenues should serve as a basis for poverty reduction, economic growth and development rather than contributing further to corruption, conflict and social division.

The Publish What You Pay coalition of over 300 NGOs worldwide calls for:

- the mandatory disclosure of payments made by oil, gas and mining companies' to all governments for the extraction of natural resources
- resource-rich developing country governments to publish full details on revenues. This is a necessary first step towards a more accountable system for the management of natural resource revenues.

The campaign was founded by Global Witness, CAFOD, Oxfam, Save the Children, Transparency International and George Soros, Chairman of the Open Society Institute. The campaign now also includes several national NGO coalitions from around the world working towards greater resource revenue transparency, including in Australia, Azerbaijan, Cameroon, Chad, Congo Brazzaville, Democratic Republic of Congo, France, Georgia, Ghana, Indonesia, Kazakhstan, the Kyrgyz Republic, Liberia, Mauritania, the Netherlands, Nigeria, Norway, the United States and the United Kingdom.

More information from  
[www.publishwhatyoupay.org](http://www.publishwhatyoupay.org)

### The Extractive Industries Transparency Initiative (EITI)

The Extractive Industries Transparency Initiative was announced by UK Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002. The aim of the Initiative is to increase transparency over payments by companies to governments and government-linked entities, as well as transparency over revenues by those host country governments. The Initiative focuses on revenues from oil, gas and mining companies (taxes, royalties, bonuses and other payments) which can exacerbate poor governance and lead to corruption, conflict and poverty due to the lack of accountability and transparency.

EITI is based in the UK's Department for International Development and works closely with the World Bank and the IMF. In addition to working with implementing governments, EITI is supported by donors, by many of the world's largest oil and mining companies as well as by investors in those companies and by different civil society groups such as the Publish What you Pay Campaign.

To date, some 20 countries have either endorsed, or are now actively implementing EITI across the world – including Peru, Trinidad and Tobago, Azerbaijan, Nigeria, and East Timor. These countries have agreed to:

- widely publish details of all material oil, gas and mining payments by companies to governments and of all revenues received by governments from oil, gas and mining companies
- ensure credible, independent and verified independent auditing
- ensure this approach is extended to all companies including state-owned enterprises
- involve civil society as an active participant in the design, monitoring and evaluation of this process
- develop a public plan that is sustainable for the proper use of such resources.

More information - [www.eitransparency.org](http://www.eitransparency.org)



## Transparency International

Transparency International is the best known and largest international civil society organisation highlighting and campaigning against corruption and is an international network of more than 90 locally established national organisations. These local bodies fight corruption in their own countries in a number of ways:

- they bring together relevant players from government, civil society, business and the media to promote transparency in elections, in public administration, in procurement and in business
- they use advocacy campaigns to lobby governments to implement anti-corruption reforms.

Transparency International seeks to challenge the apparent inevitability of corruption and to offer hope to its victims. It is politically non-partisan and does not undertake investigations of alleged corruption or expose individual cases, but at times does work in partnership with organisations that do.

For Transparency International, the reality of corruption means:

- A father who must do without shoes because his meagre wages are used to pay a bribe to get his child into a supposedly free school
- the unsuspecting sick person who buys useless counterfeit drugs, putting their health in grave danger
- a small shop owner whose weekly bribe to the local inspector cuts severely into his modest earnings
- the family trapped for generations in poverty because a corrupt and autocratic leadership has systematically siphoned off a nation's riches.

Other times, corruption's impact is less visible:

- the prosperous multinational corporation that secured a contract by buying an unfair advantage in a competitive market through illegal kickbacks to corrupt government officials, at the expense of the honest companies who didn't
- post-disaster donations provided by compassionate people, directly or through

their governments, that never reach the victims, callously diverted instead into the bank accounts of criminals

- the faulty buildings, built to lower safety standards because a bribe passed under the table in the construction process, that collapse in an earthquake or hurricane.

More information - [www.transparency.org](http://www.transparency.org)



*It is now recognised internationally that building up local democracy, accountability and participation is one of the most effective ways to tackle corruption. Supporting and strengthening local groups campaigning for democracy is fundamental. (Election posters, Zambia, 2006).*



## Readings

- Transparency International Yearly, *Global Corruption Report*, London, Pluto Press
  - UN Economic Commission for Africa, 2005, United Nations
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## See

- [www.globalcorruptionreport.org](http://www.globalcorruptionreport.org)
- [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org)
- [www.savethechildren.org](http://www.savethechildren.org)